



# Housing Markets and Policies in the UK, Switzerland and the US

– *Lessons to be learnt?*

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# Outline



- Focus on three developed countries in Western world – **UK, Switzerland and US** – and explore their housing markets and housing policies
- In three steps:
  1. **Institutional setting**, current status of economy & unique geographic features
  2. **Main features of housing markets & main challenges**
  3. **Key policies & assessment** of effectiveness
- Tentative conclusions

*Note: Sources and references given at end of presentation*

# United Kingdom

(builds on Hilber & Vermeulen, *Economic Journal*, forthcoming)



# UK: Institutions, Economy & Geography

- Highly **centralized** country – political and economic power in London
- Vast degree of **regional disparity**
  - ▶ Greater London Area & South East = power house
  - ▶ Most of the rest is struggling economically
- Densely populated island (pop/km<sup>2</sup>: 262) but urban development **extremely contained**
  - ▶ Only 6.8% of land area classified as “urban”
  - ▶ **Only 1.5% actually built on**
  - ▶ Difference: greenspace (parks, allotments, sport pitches), gardens, rivers, canals, lakes & reservoirs

# What Greenbelt containment looks like



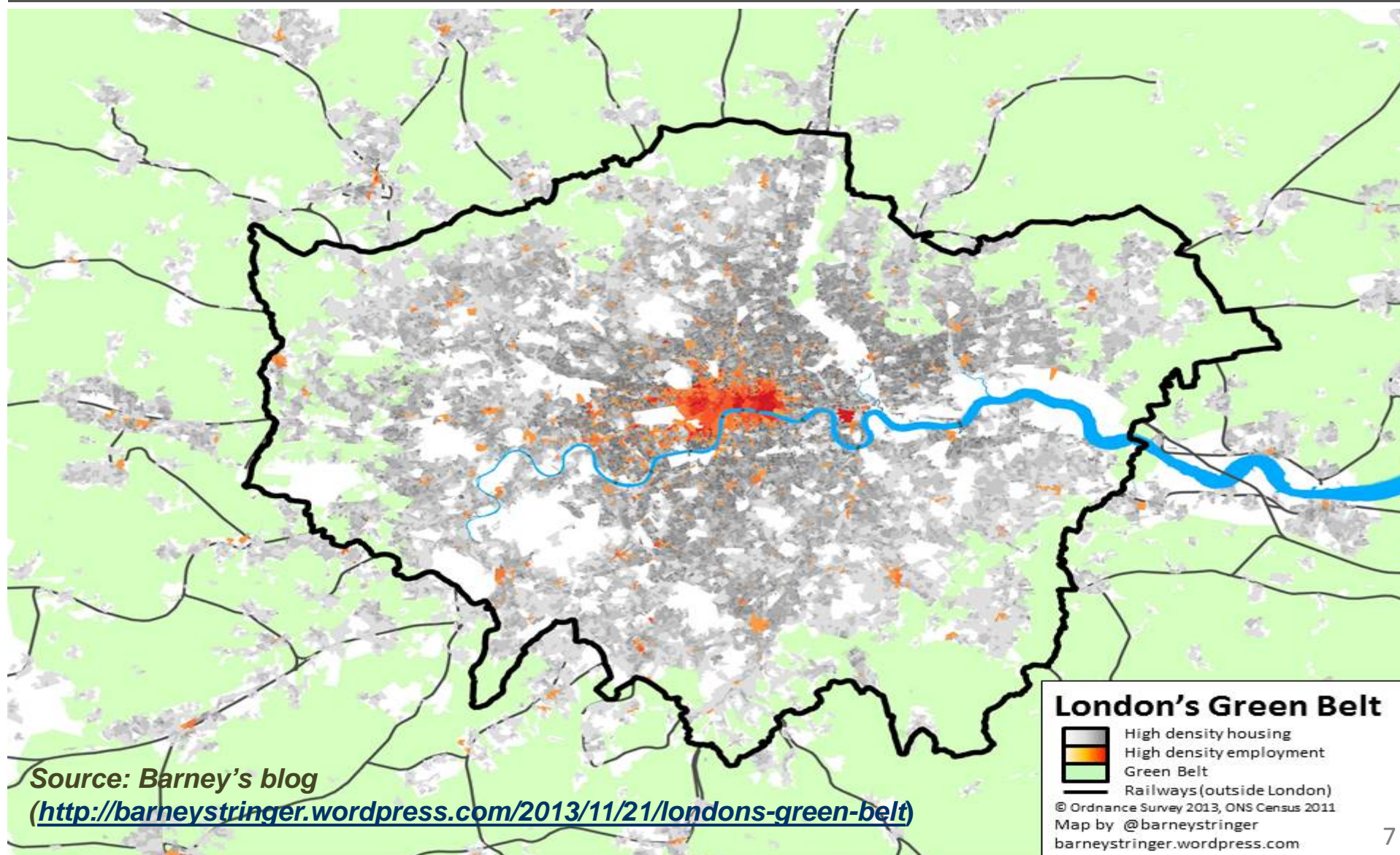


# And from the satellite...





# And in London...





# Why so contained?

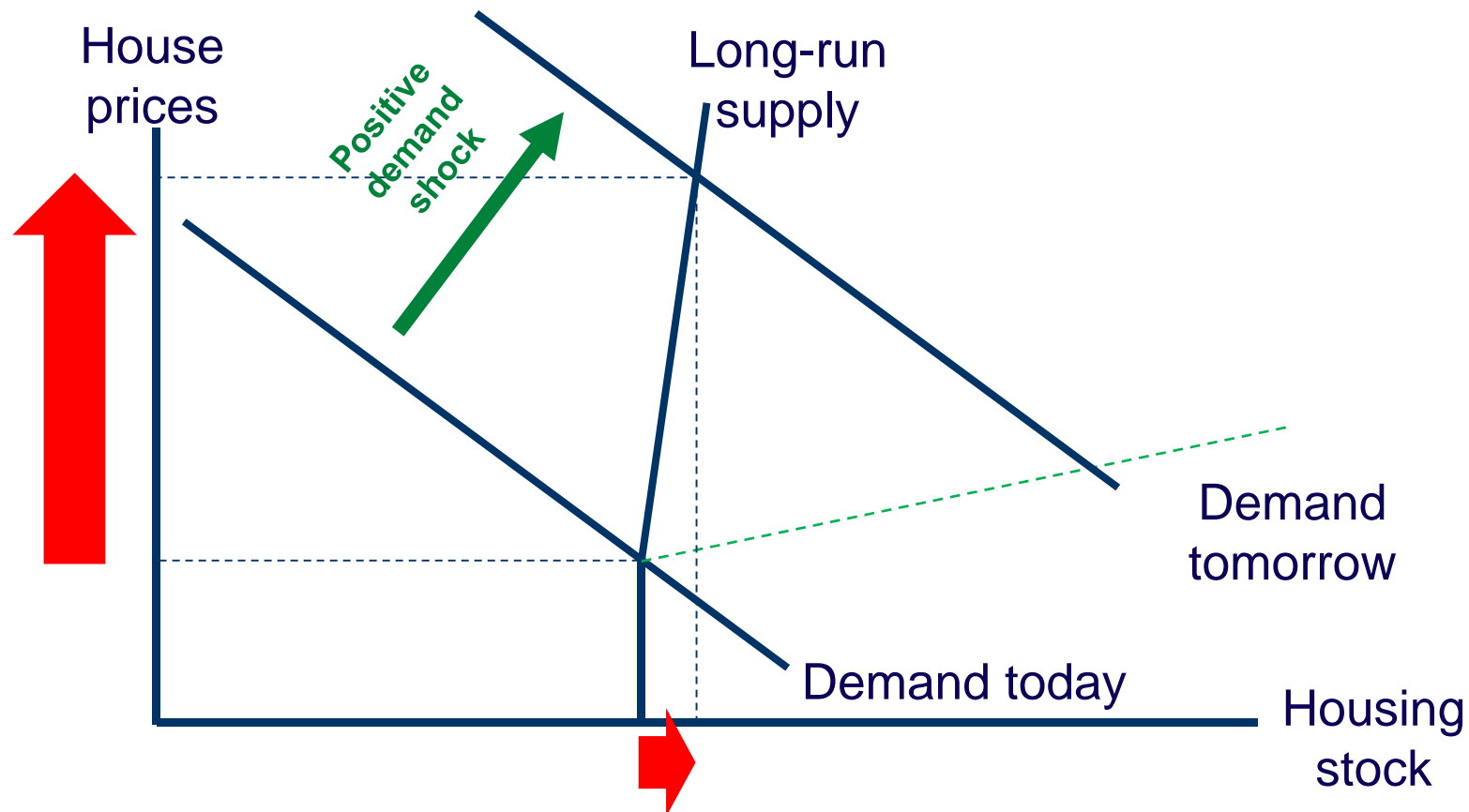


- Land use planning decisions in Britain taken at local level by 'Local Authorities' (LAs)
- Problem
  - ▶ Since 1947 British planning system characterized by LAs **facing most of cost** of development (infrastructure, congestion, etc.) **but very few benefits** (tax revenue collected centrally and redistributed irrespective of amount of development)
  - ▶ Implication: LAs have essentially **no incentives** to permit development
  - ▶ Lack of incentives + NIMBYism (or BANANAs) ⇒ Perhaps **most restrictive planning system in world!**



# Implications for British housing market(s)

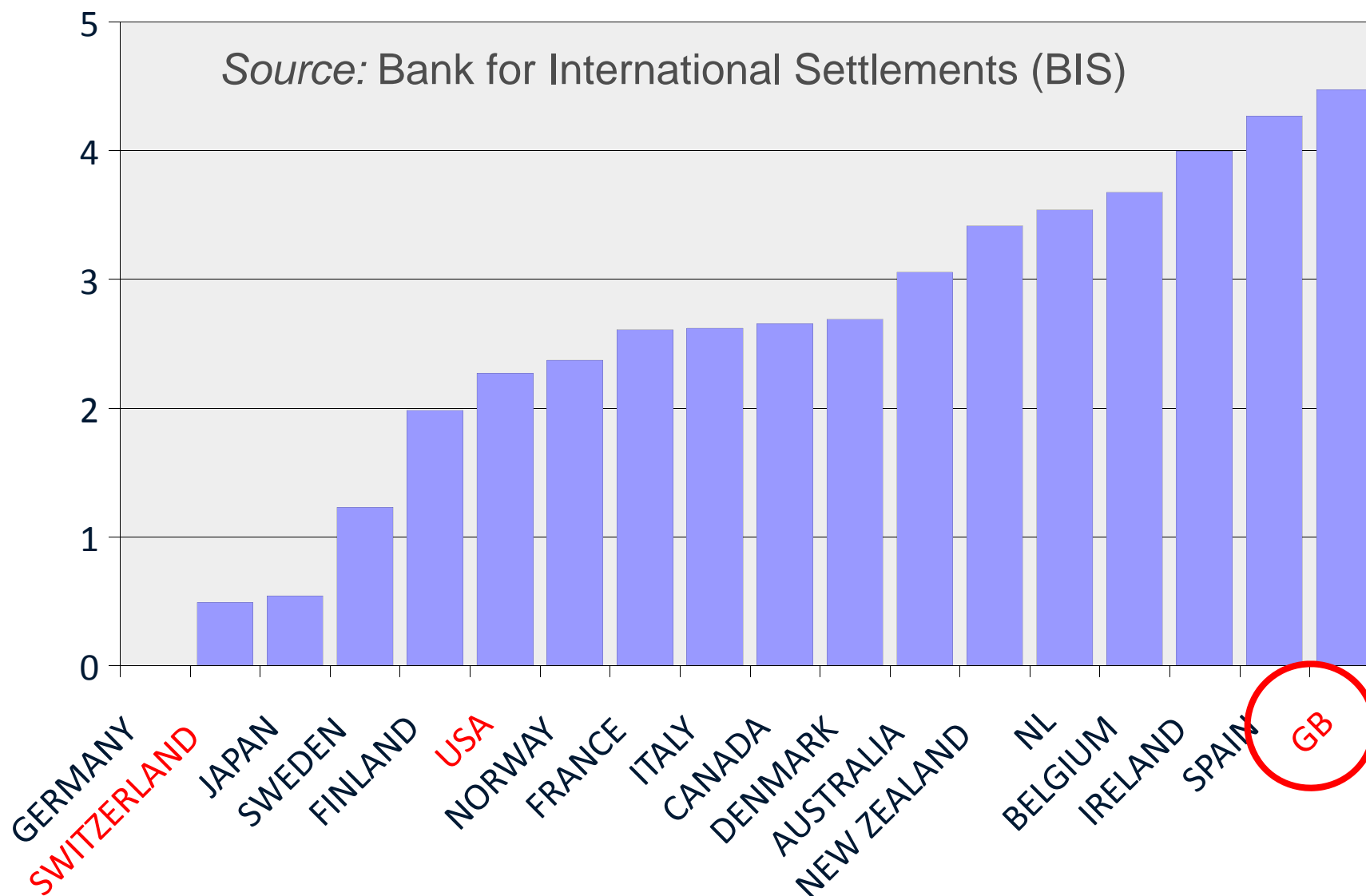
- **Housing supply** curve becomes **extremely inelastic**, particularly in London & South East



# (Resulting) Housing market conditions

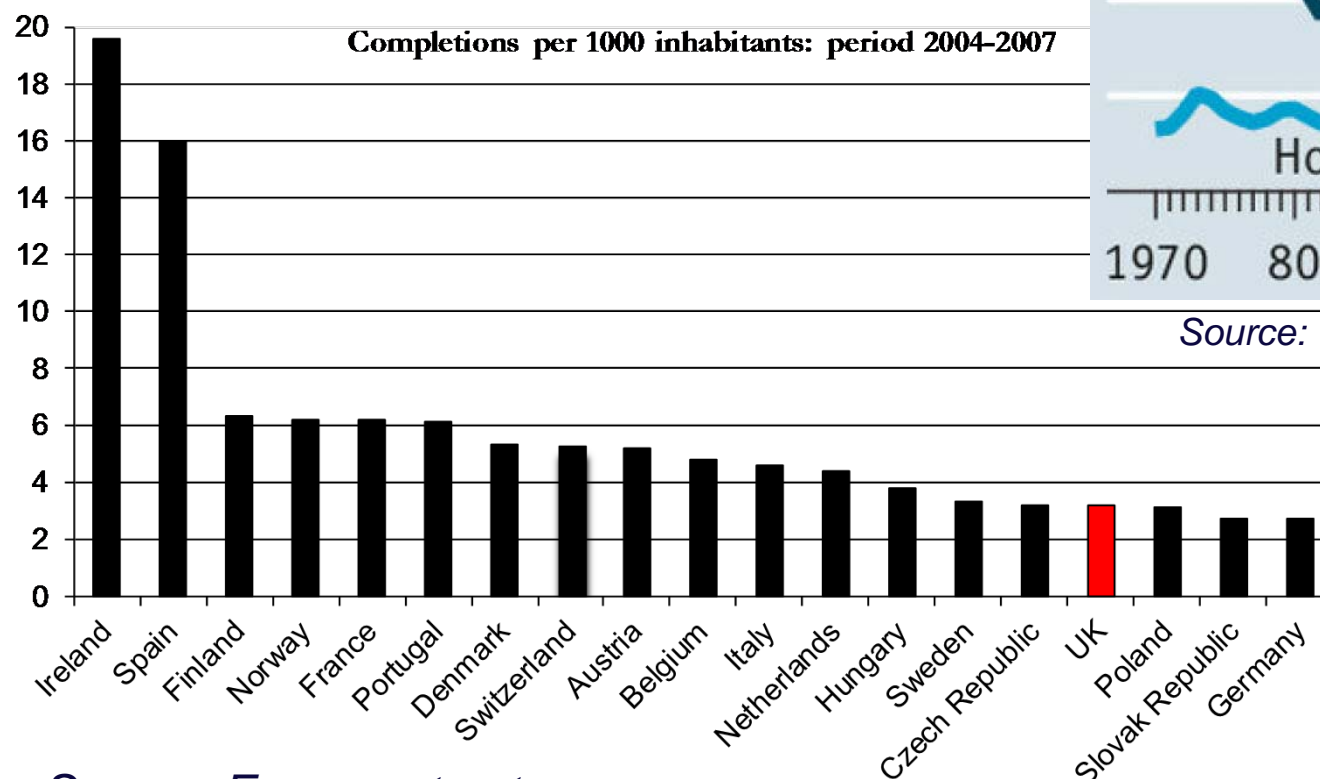
- Highest **real house price growth** over last 40 years among all major economies (& very little new construction)
- **House prices** extremely high today, especially in Greater London Area & South East
- **New houses** extremely small
  - ▶ 38% / 40% smaller than in Netherlands / Germany
- ⇒ **Price per square meter** 2<sup>nd</sup> highest in the world (only topped by tiny Monaco a tax heaven)
- ⇒ And **price volatility** is extremely high (and growing!)
  - ▶ During last full cycle (80s/90s): UK as a whole substantially more volatile in real terms than single most volatile market in US! (*UK: +83%/-38% vs. Los Angeles: +67%/-33%*)

# Real house price growth in %, average 1970 - 2006

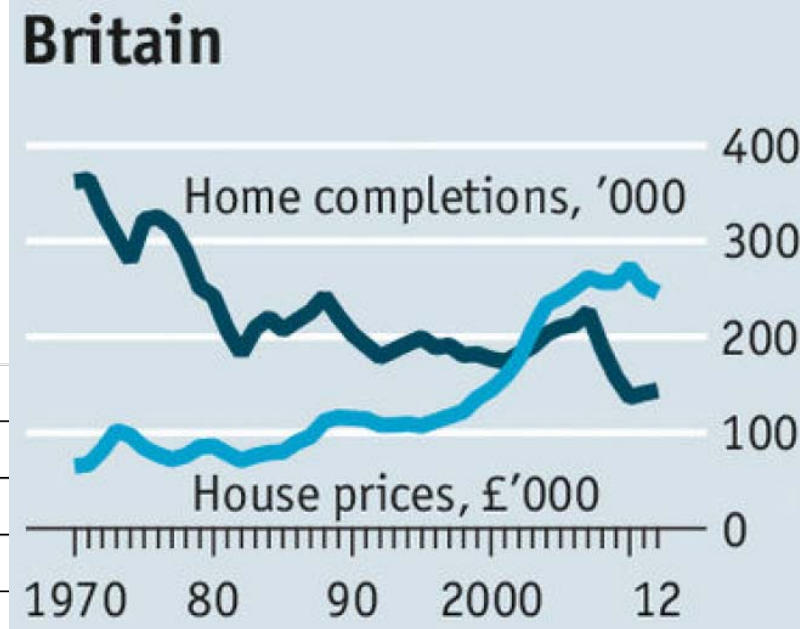




# Very little (and decreasing) housing construction



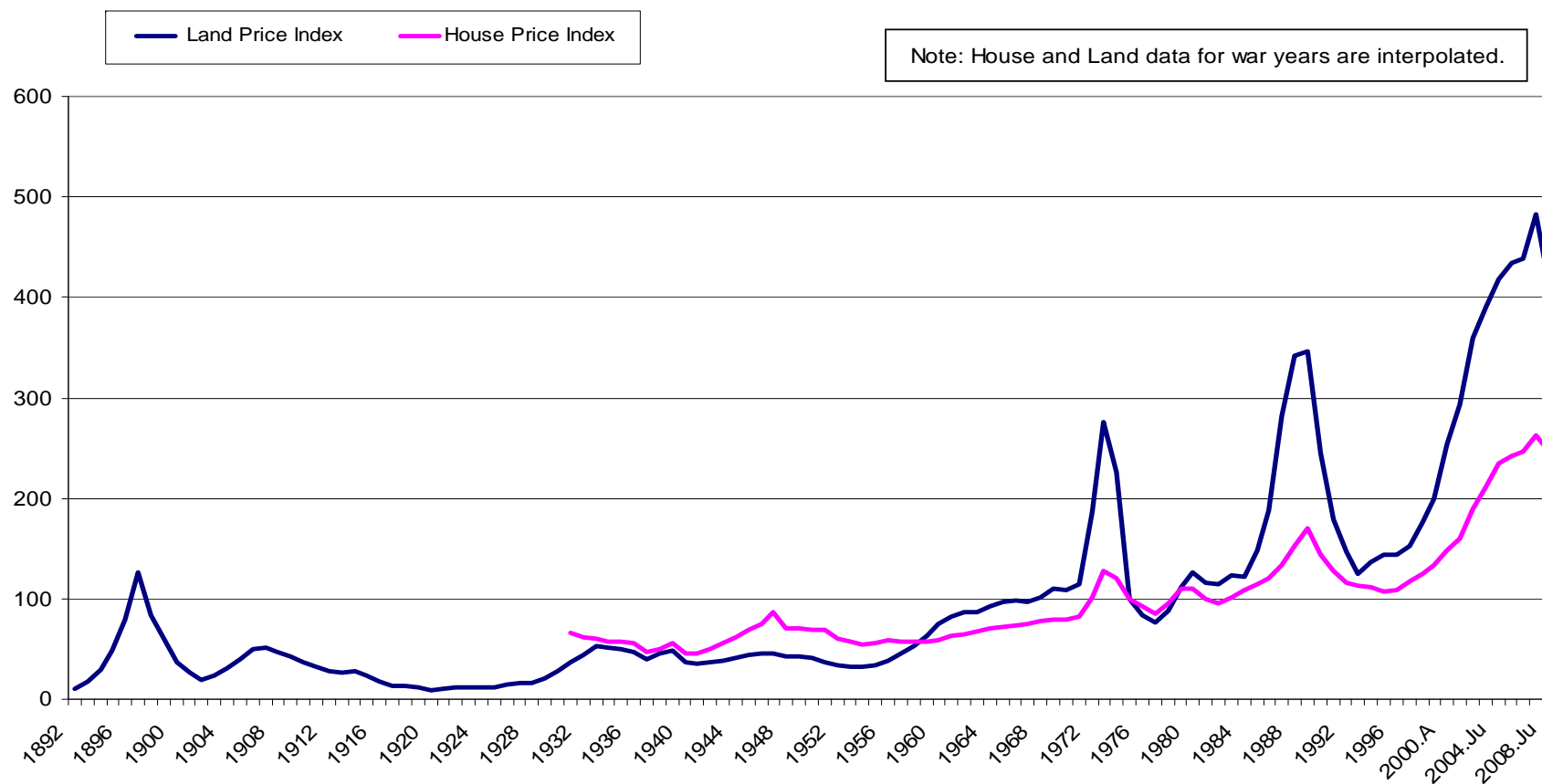
Source: Euroconstruct



Source: ONS, The Economist 11 Jan 2014

# Volatility has increased in recent decades...

## Real Land & House Price Indices (1975 = 100)



Source: Cheshire (2009)

# Policy implications

- Main challenge (& No. 1 policy issue):  
**Housing affordability!** (& risk to stability)
- Also: **British are obsessed with desire to own!**
  - ▶ Strong real price growth = strong argument to own
  - ▶ Homeownership rate fairly high (64%) but down from peak (69%) in 2001
  - ▶ Problem: Fewer and fewer (especially young) can afford to pay the extremely high prices



# Policy response (in three phases)

## I. **Classic: Social rental housing** (since 1920s)

- ▶ “Council housing” consists of 18% of total housing stock in 2011 – down from 31% in 1981

## II. **Right-to-buy** (since 1980, Thatcherism)

- ▶ Idea: Allow council flat tenants to buy at subsidised price
- ▶ Aim: Set ordinary people free from state control and enable them to enjoy “independence conferred by ownership”

## III. **Help-to-buy** (since 2013, Coalition Government)

- ▶ Purported aim: Help first-time buyers to get feet on owner-occupied housing ladder
- ▶ Instruments: Equity loans by government, mortgage guarantees & shared ownership

# Assessment of policies

- **Social housing** does deliver affordable housing to low income households **but**
  - ▶ Not enough: long “waiting lines”, reduces mobility & the clever more likely to succeed
  - ▶ Not particularly appealing & social housing associated with other problems (crime, neg. peer effects etc.)
- **Right-to-buy** did temporarily raise homeownership rate **but not** housing stock
- **Help-to-buy** further increased demand (demand shift) but did not affect supply
  - ▶ HtB spurred new house price boom (prices in London up 25.8% b/w 2013q2 & 2014q2)
  - ▶ Housing not more affordable for young today – if anything less
  - ▶ Government (=tax payers) & ‘marginal’ buyers ultimately assume all the risks! (no securitization market like in US!)



# Switzerland

*(builds on Hilber and Schöni, work in progress)*





# CH: Institutions, Economy & Geography

- Highly **decentralized** – perhaps the most federalistic country in the world
  - ▶ Opposite of institutional setting in UK
- Local public services financed via local income taxes
  - ▶ Strong incentives for local municipalities to attract new (wealthy) tax payers
  - ▶ **Strong incentives** to permit development **(contrary to UK)**
- Economy remarkably robust and reasonably strong & **extremely low interest rates** (fixed rate mortgages ~1%)
- Strong immigration flows including of wealthy foreigners (mainly for tax & quality of life reasons)
- Planning system fairly lax but many **geographical constraints** (lakes, mountains, country borders)

# Particularities of Swiss housing market(s)

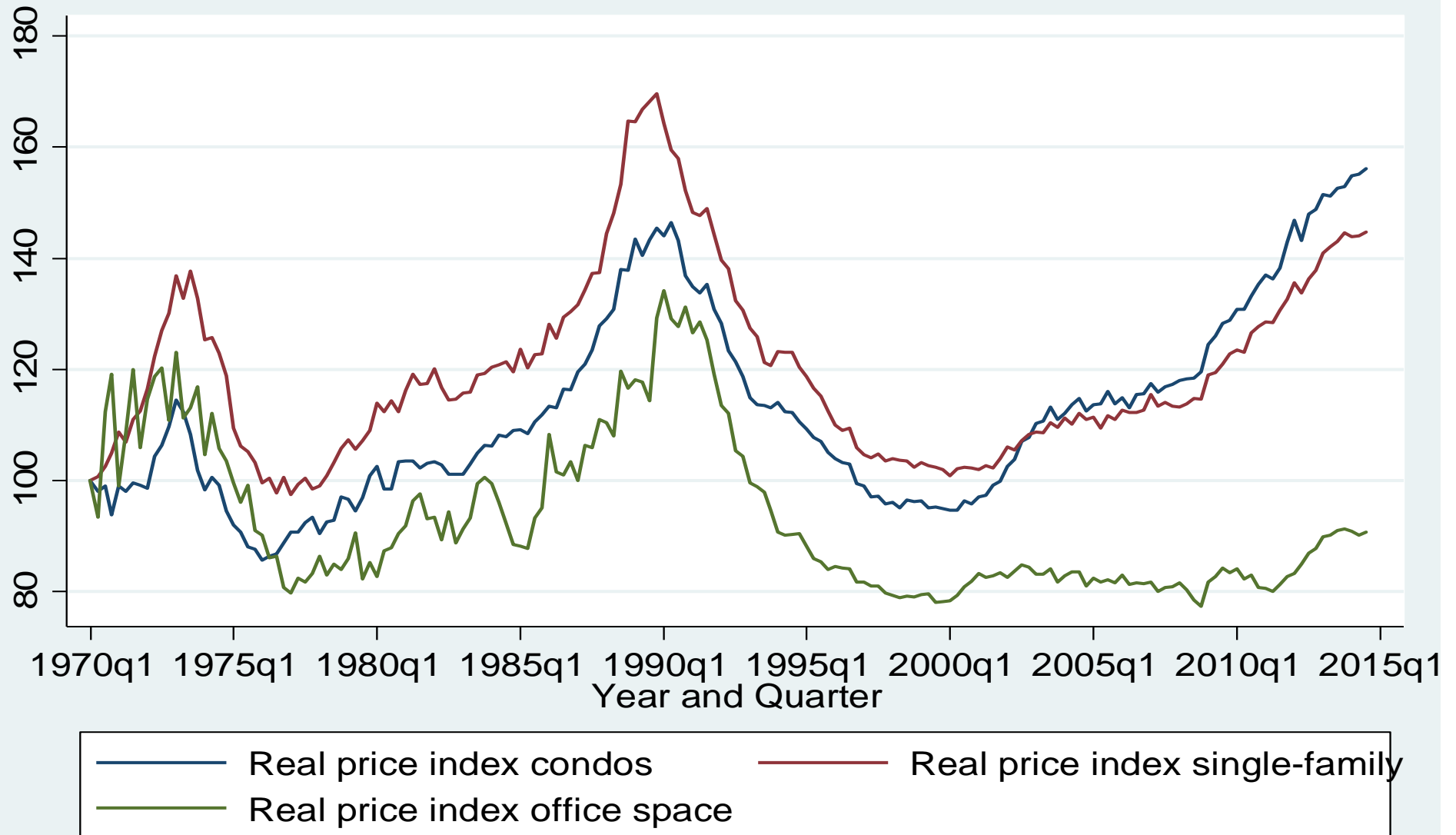
- Tax system comparably **neutral** towards homeownership
    - ▶ Taxation of imputed rental income for owner-occupiers (*owner-occupiers and landlords treated equally*)
    - ▶ Mortgage interest deduction for owner-occupiers and landlords (*owner-occupiers and landlords treated equally*)
  - Homeownership rate extremely low by international standards
    - ▶ 37.2% in 2012 (up from 31.3% in 1990)
- ⇒ Switzerland is (still) a **country of renters**

# Status of housing market(s)

- Massive **construction boom** since about 2009 (mainly owner-occupied)
- **Urban (and rural) sprawl** due to strong incentives to permit development in conjunction with strong demand (*especially in tourist areas where foreigners want to buy*)
- Prices have been rising steadily and at a somewhat faster pace since about 2009 (*but nowhere near UK!*)
  - ▶ Price increases strongest in desirable and geographically constrained areas
- Prices are volatile but much less so than in UK



# Real price index, 1970-2014



Source: Swiss National Bank; own calculations C. Hilber

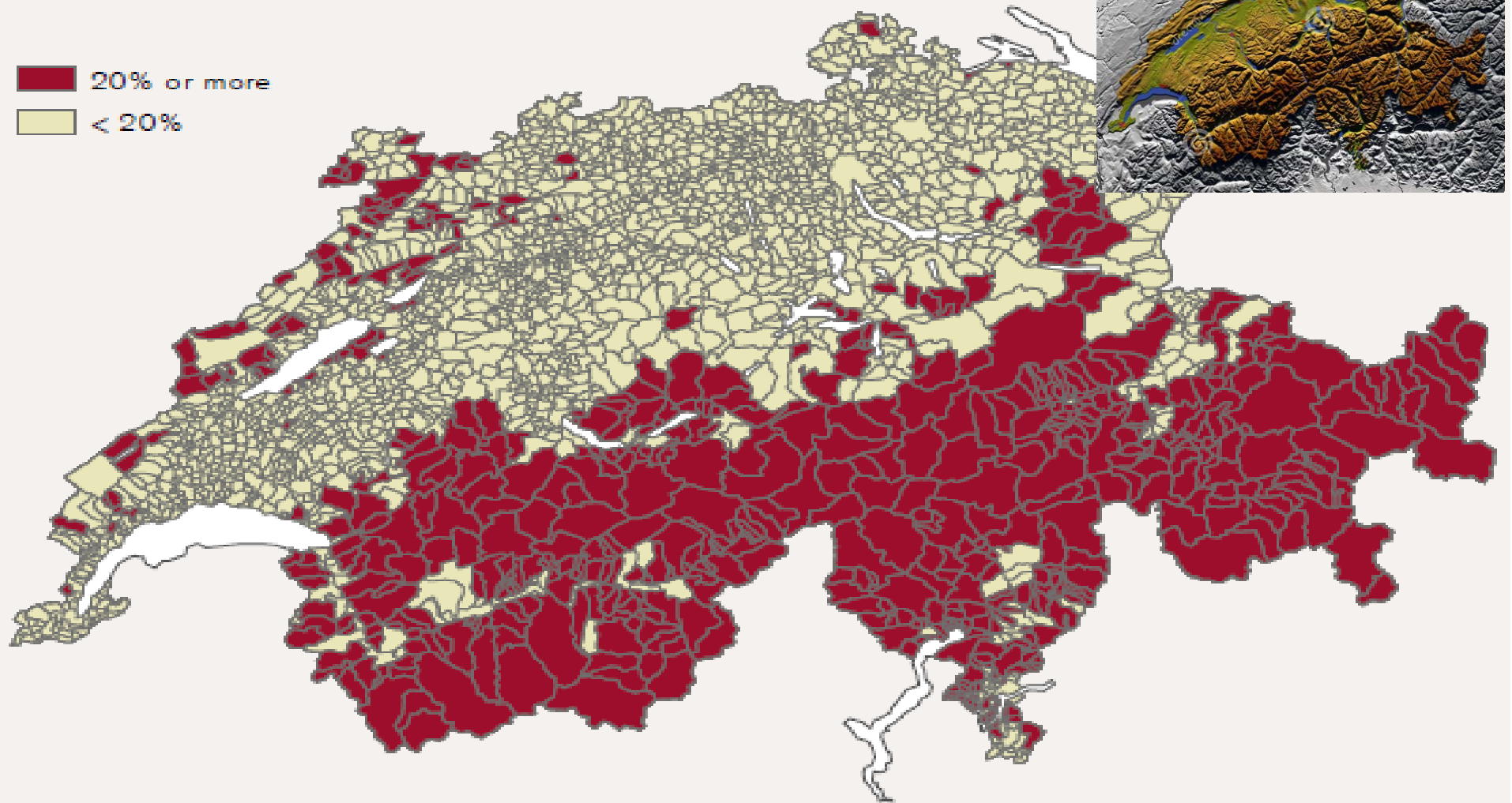
# Policy implications & responses

- Main challenge = **urban sprawl**
- But also: **Swiss are a country of renters!**
- Key policies
  - ▶ **Rent control** (since 1936) – rents of *existing tenants* de facto tied to mortgage interest rates
  - ▶ **Restrictions on construction of 2<sup>nd</sup> homes** (since 2012)
    - Swiss electorate approved “2<sup>nd</sup> Home Initiative” with 50.6% in 2012
    - Purported aim: combat sprawl
    - Affects municipalities in tourist areas (with share 2<sup>nd</sup> homes exceeding 20% of total housing stock)

# Municipalities affected from 2<sup>nd</sup> Home Initiative

Communes with a Second Home Quota of over 20%

As of August 22, 2012



Source: Federal Office for Spatial Development, Credit Suisse Economic Research, Geostat

# Assessment of policies

## ■ Rent control

- ▶ Reasonably successful in stabilizing rents
- ▶ But tying rents to mortgage interest rates problematic
  - Often significant imbalances (excess demand during booms) – vacancy rate in City of Zurich (2011): 0.05%; Switzerland (2011): 0.94% (*in US in 2011: 9.5%*)
- ▶ Discrimination of certain ethnic-, income-, and age-groups

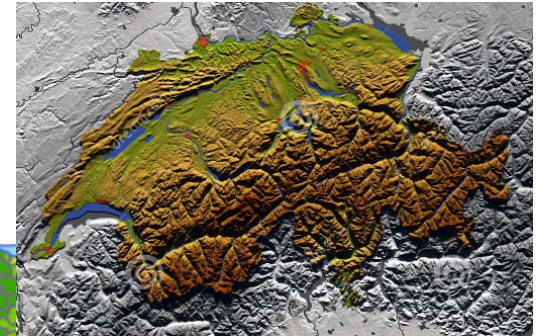
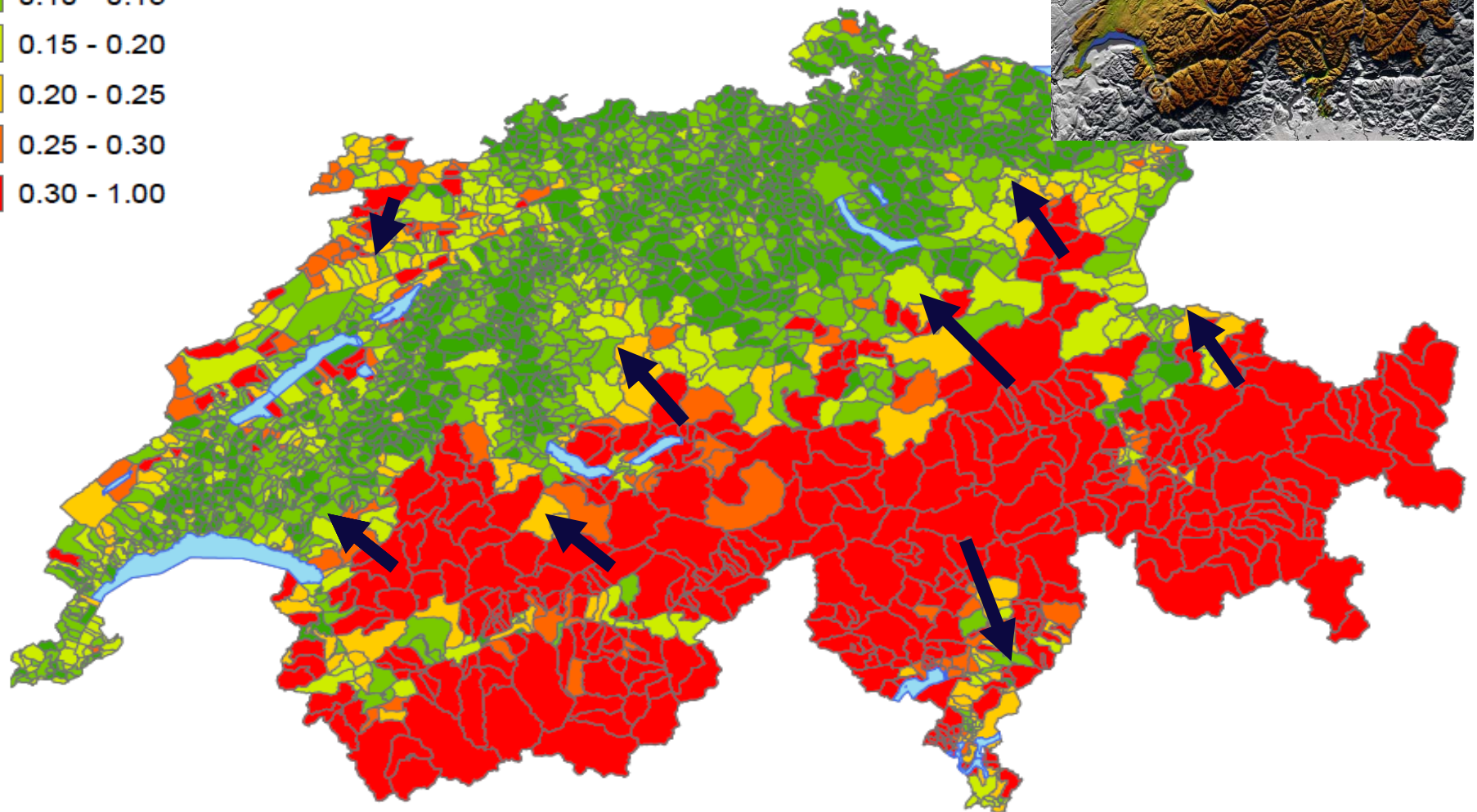
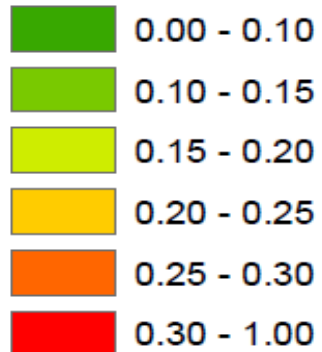
## ■ Restrictions on second homes (Hilber & Schoeni 2014)

- ▶ **Shifted demand** from ‘just above 20%’ to ‘just below 20%’ municipalities (but no reduction in overall sprawl!) plus
- ▶ **Big effects on price of 1<sup>st</sup> homes**
  - Lowering prices in affected municipalities because can no longer sell 1<sup>st</sup> homes as 2<sup>nd</sup> homes (loss of option value)
  - Local residents worse-off!

# Market response

Demand for 1<sup>st</sup> homes ↓ >20% places & up in <20% places ↑

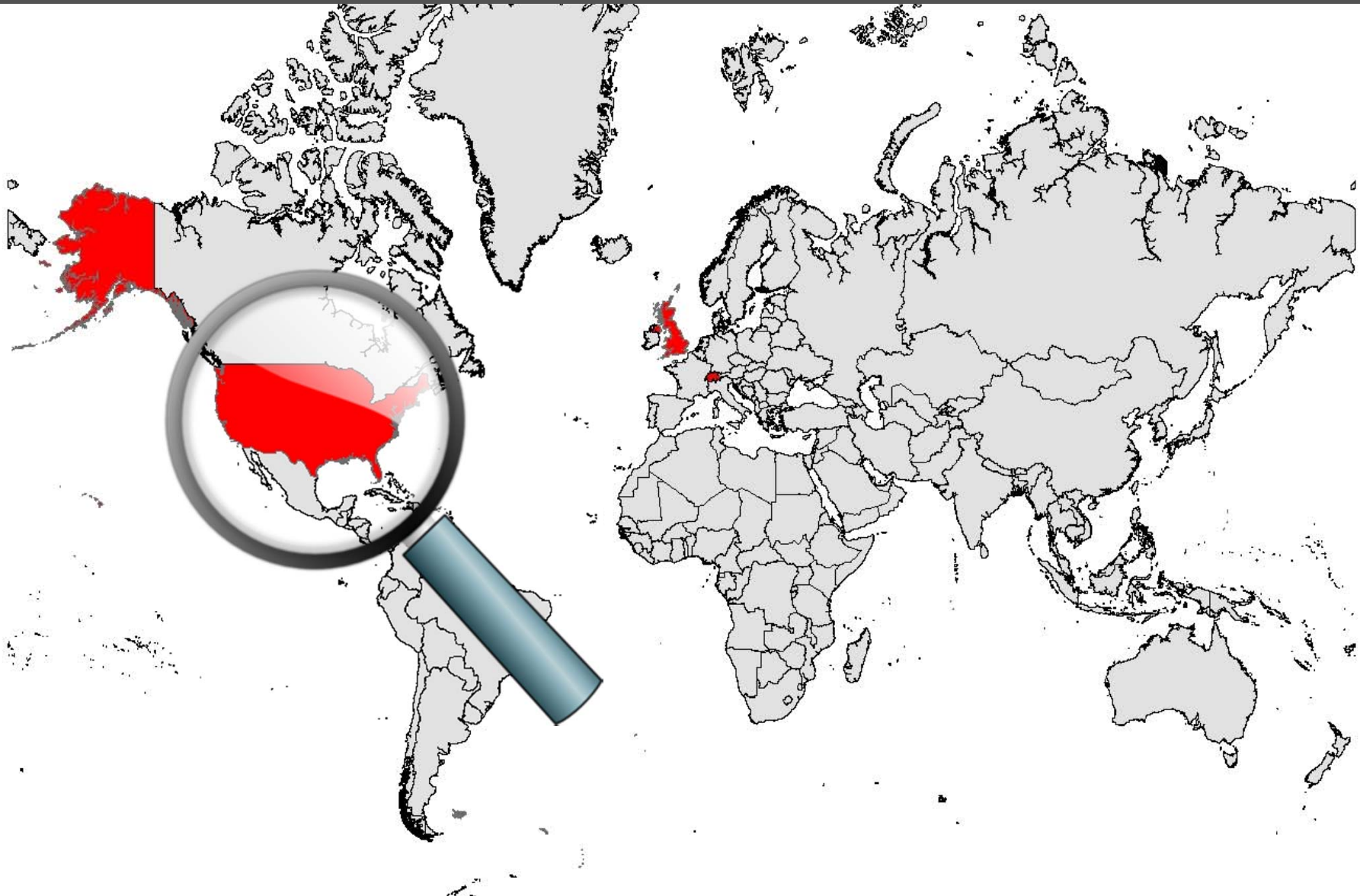
## Second Homes Rates





# United States

(builds on Hilber and Turner, *Review of Economics and Statistics*, 2014)



# US: Institutions, Economy & Geography

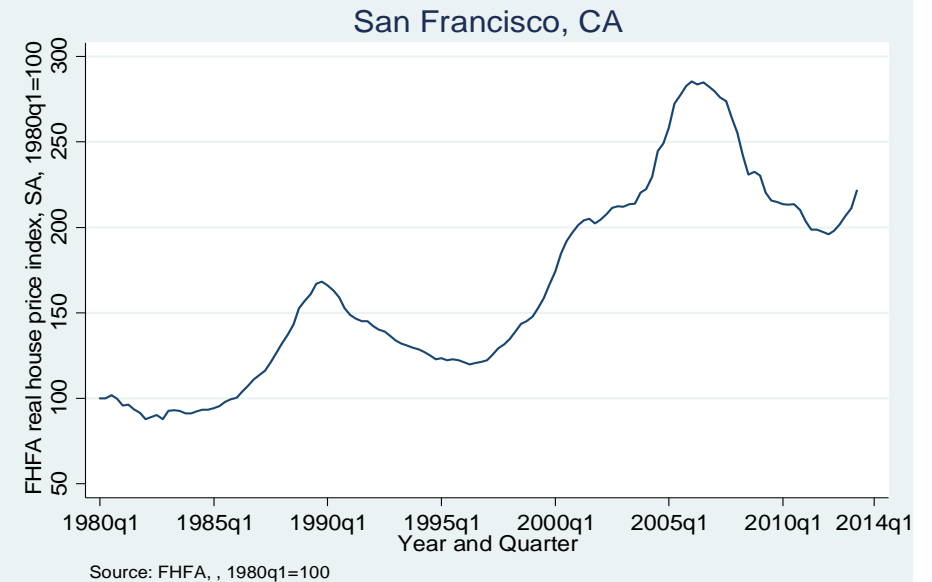
- Highly **decentralized** country
    - ▶ Main tax at local level = property tax
    - ▶ Vast differences across U.S. states in political ideology (TX vs. CA), in productivity (CA/NY vs. Midwest) and geography
  - Some cities have very strict land use controls and tight physical constraints (SF, LA, NY) – *rather like UK*
  - Other cities have lax controls and few geographical constraints (Columbus, OH) – *more comparable to SWI*
- ⇒ Some place have very inelastic supply of housing, while others have very elastic supply...

# Implication for housing markets...

## *Real price growth*

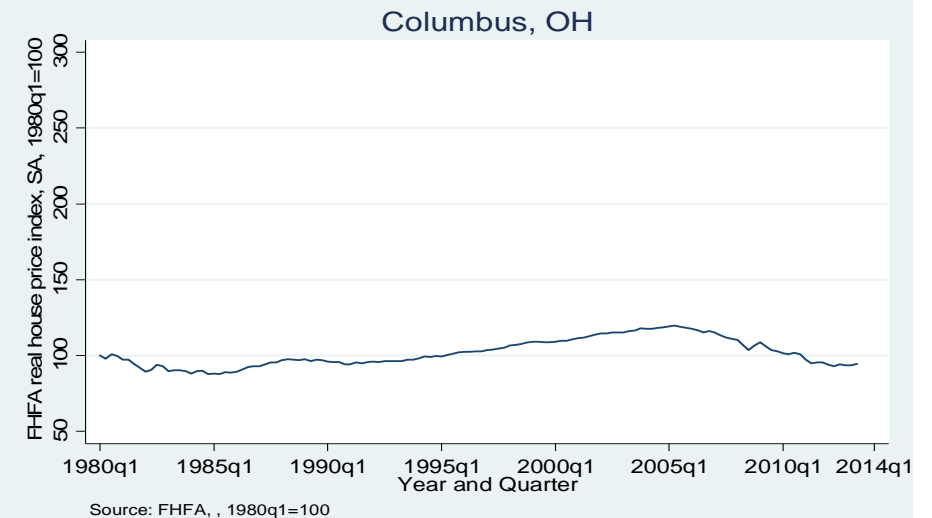
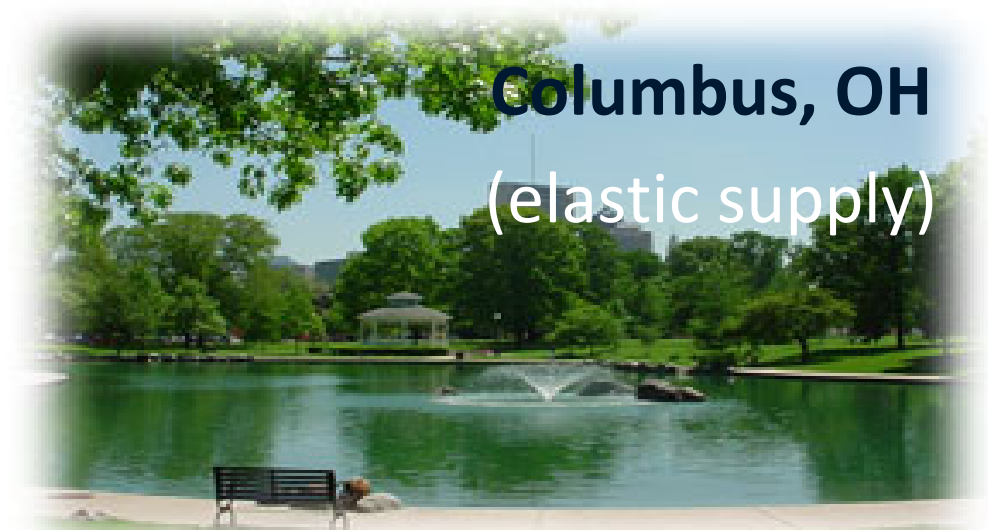
### San Francisco, CA

(inelastic supply & volatile demand)



### Columbus, OH

(elastic supply)

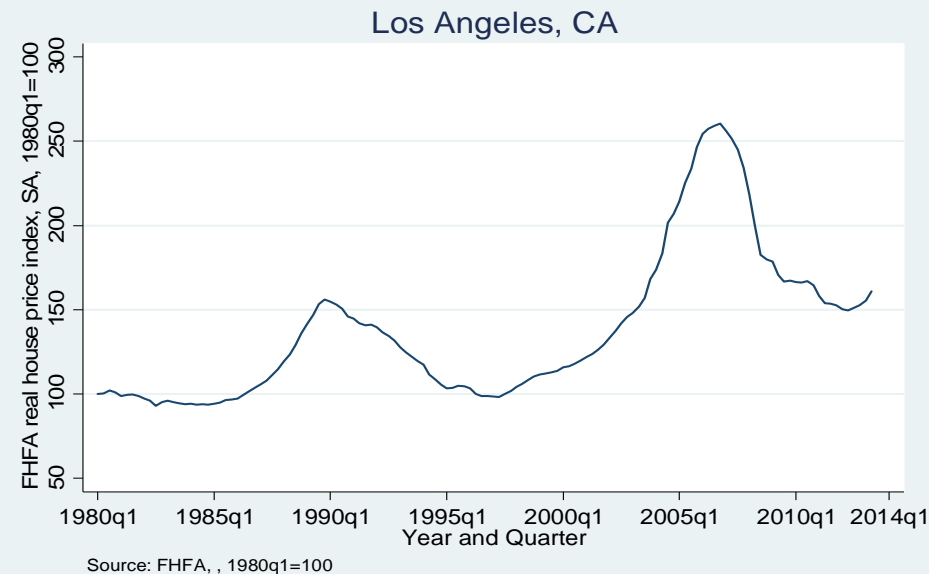




# Two other examples...

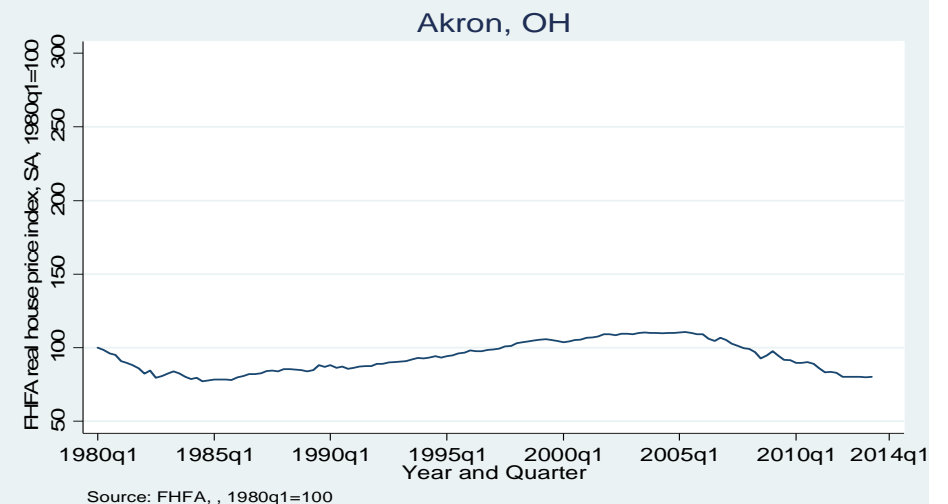
## Los Angeles, CA

(inelastic supply & volatile demand)



## Akron, OH

(elastic supply)



# Policy implications

- **Americans are obsessed with desire to own!**  
(rather like the British)
  - ▶ Homeownership rate fairly high (64.4%) in 2014 but down from peak (69.2%) in 2004
  - ▶ Problem: Low income households & households in unstable jobs struggle to get feet on owner-occupied housing ladder or to hold on to their homes
- Main challenge: **Access to homeownership**  
(especially in 'superstar cities': such as LA, SF, NY)



# Key policy: Mortgage Interest Deduction (MID)

- Subsidy to homeowners; varies by income
- Aim of policy: Increase homeownership attainment
- Cost of policy: ~\$100 billion per annum in foregone tax revenue

⇒ Does MID increase homeownership attainment?

- ▶ Would expect **capitalization of MID** in places with inelastic supply (SF, LA, NY) to **offset benefits of subsidy**
  - HV increase should reflect PV of subsidy!
- ▶ MID may even lower homeownership attainment e.g. because low-income HHs may no longer be able to make down-payment

# Assessment of effectiveness of MID

(Hilber & Turner, 2014, *Review of Economics and Statistics*)

- MID boosts homeownership attainment only of higher income HHs in less tightly regulated markets
  - **In more restrictive places, an adverse effect exists**
  - The **net effect** on homeownership attainment is **essentially zero** (at a cost of \$100 billion!)
  - ‘Marginal’ homebuyers who bought as consequence of MID & who subsequently defaulted lost all their wealth!
- ⇒ MID is highly **ineffective policy** to promote homeownership and increase social welfare (in particular in places with inelastic supply)!

# Conclusions

- Housing market problems are result of unique institutional setting, economic conditions, and geographic features
- Key policies aim to address these problems but all too often fail miserably, at a huge cost – why?
- Policies tend to have various **unintended consequences** (indirect general equilibrium market responses) that offset desired effects of policies
  - ▶ **Help-to-buy** or **Mortgage Interest Deduction** boost demand and thus raise HVs – effectively making owning *less* affordable for young would-be buyers

# Q & A

## Thank you!

*Presentation with references & hyperlinks  
will be downloadable from:*

<http://personal.lse.ac.uk/hilber/>

# References

## UK – key references

**Hilber, C.A.L. and W. Vermeulen (In Press)** “The impact of supply constraints on house prices in England,” *Economic Journal*, forthcoming. ([pdf](#))

**Hilber, C. (2013)** “Help to Buy will likely have the effect of pushing up house prices further, making housing become less – not more – affordable for young would-be-owners,” *British Politics and Policy at LSE Blog*, June 25. (<http://blogs.lse.ac.uk/politicsandpolicy/archives/34388>)

## UK – other related readings

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**Cheshire, P. and C. Hilber (2008)** “Office Space Supply Restrictions in Britain: The Political Economy of Market Revenge,” *Economic Journal*, 2008, 118(529), F185-F221.

**Cheshire, P. (2009)** “Urban Containment, Housing Affordability and Price Stability – Irreconcilable Goals,” SERC Policy Paper No. 4, September.

**Cheshire, P., C. Hilber and I. Kaplanis (In Press)** “Land Use Regulation and Productivity – Land Matters: Evidence from a Supermarket Chain,” *Journal of Economic Geography*, forthcoming. ([pdf](#))

**Hilber, C. and W. Vermeulen (2010)** [The Impacts of Restricting Housing Supply on House Prices and Affordability – Final Report](#), London: Department for Communities and Local Government.



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## Switzerland – key reference

**Hilber C.A.L. and O. Schöni** “The impact of demand constraints on house prices: Evidence from the Swiss Second Home Initiative,” work in progress.

## US – key reference

**Hilber, C.A.L. and T.M. Turner** (2014) “The mortgage interest deduction and its impact on homeownership decisions,” *Review of Economics and Statistics*, 96(4), 618-637. ([pdf](#))

## US – other related readings

**Glaeser, E.L., J. Gyourko, and A. Saiz, (2008).** “Housing supply and housing bubbles,” *Journal of Urban Economics*, vol. 64(2), pp. 198-217.

**Hilber, C and F. Robert-Nicoud (2013)** “On the Origins of Land Use Regulations: Theory and Evidence from US Metro Areas,” *Journal of Urban Economics*, vol. 75, No. 1, 29-43.

## Conclusions / suggestions / international comparison – key references

**Hilber, C.A.L.** (2011) “The economic implications of house price capitalization: A Survey of an emerging literature,” SERC Discussion Paper No. 91, October 2011. ([pdf](#))

**Hilber, C.A.L.** (2014) “Why are homeownership rates so different across Europe?” mimeo, London School of Economics, June 2014.

See [Google Scholar](#) and/or [my personal homepage](#) for links to my work.

# Sources

(if not mentioned in presentation)

## Page 4

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- Land cover stats: Easton, M. (2012) "The great myth of urban Britain," BBC News online, 28/6/2012. (Underlying sources: land use and land cover data) <http://www.bbc.co.uk/news/uk-18623096>

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- Size of newly constructed housing: Statistics Sweden (2005) [Housing Statistics in the European Union 2004](#), Karlskrona: Boverket, Publikationsservice.
- Price per square meter: Globalpropertyguide.com (<http://www.globalpropertyguide.com/most-expensive-cities>; last accessed: 28 March 2013)
- Price volatility: For UK: Nationwide; for US: Glaeser *et al.* (2008) (see under references)

## Page 14

- Homeownership rates: Office for National Statistics (ONS); <http://www.ons.gov.uk/ons/rel/census/2011-census-analysis/a-century-of-home-ownership-and-renting-in-england-and-wales/short-story-on-housing.html>

# Sources (cont.)

## Page 15

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## Page 16

- Nationwide; see: <http://www.theguardian.com/money/2014/jul/02/leap-london-house-prices-unequalled-nationwide>

## Page 18

- Mortgage interest rates: see e.g.  
<https://www.comparis.ch/hypothecken/default.aspx>

## Page 19

- Homeownership rates: Swiss Federal Statistical Office (Bundesamt für Statistik)  
[http://www.bfs.admin.ch/bfs/portal/de/index/themen/09/03/blank/key/bewohnertypen/nach\\_region.html](http://www.bfs.admin.ch/bfs/portal/de/index/themen/09/03/blank/key/bewohnertypen/nach_region.html)

## Page 21

- House price statistics: Swiss National Bank (Schweizerische Nationalbank) derived from data from Wüest & Partner  
[http://www.snb.ch/de/iabout/stat/statpub/statmon/stats/statmon/statmon\\_04\\_3](http://www.snb.ch/de/iabout/stat/statpub/statmon/stats/statmon/statmon_04_3)

# Sources (cont.)

## Pages 22

- 2<sup>nd</sup> home initiative: See Hilber and Schöni (2014, work in progress) and sources mentioned therein. [not yet available]

## Page 24

- Vacancy rate stats: City of Zürich: Stadt Zürich Statistics 'Leerwohnungs und Leerflächenzählung 2011'. Switzerland: Hauseigentümerverband (landlord society) <http://www.hev-schweiz.ch/vermieten-verwalten/leerwohnungsziffer/>
- Evidence: Hilber and Schöni (2014, work in progress)

## Page 25

- Map: Hilber and Schöni (2014, work in progress)

## Pages 28/29

- Raw house price data from <http://www.fhfa.gov/>; own calculations; CPI data: source: Bureau of Labor Statistics; data derived from FRED Economic Data St. Louis Fed <http://research.stlouisfed.org/fred2/>

## Page 30

- Homeownership rates from US Census (Current Population Survey & Housing Vacancies Survey) <http://www.census.gov/housing/hvs/>

## Page 31/32

- See Hilber and Turner (2014) and sources mentioned therein.